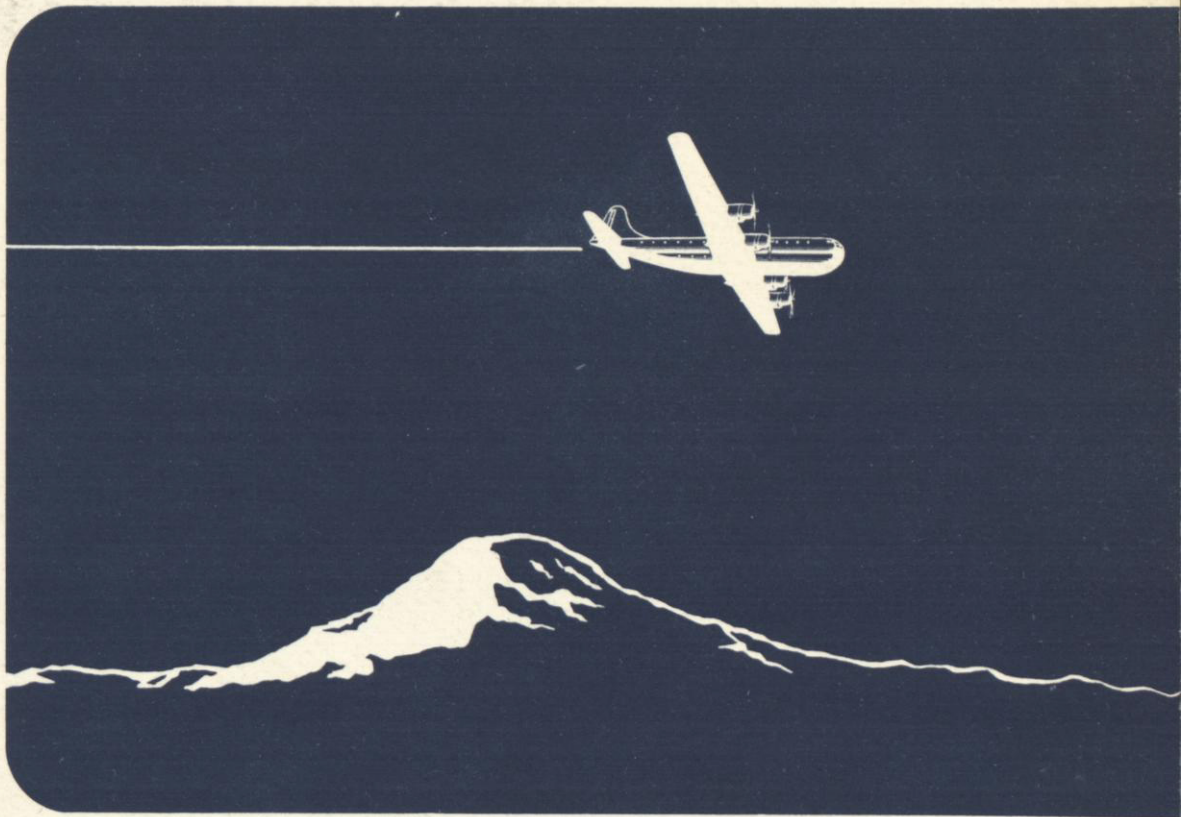


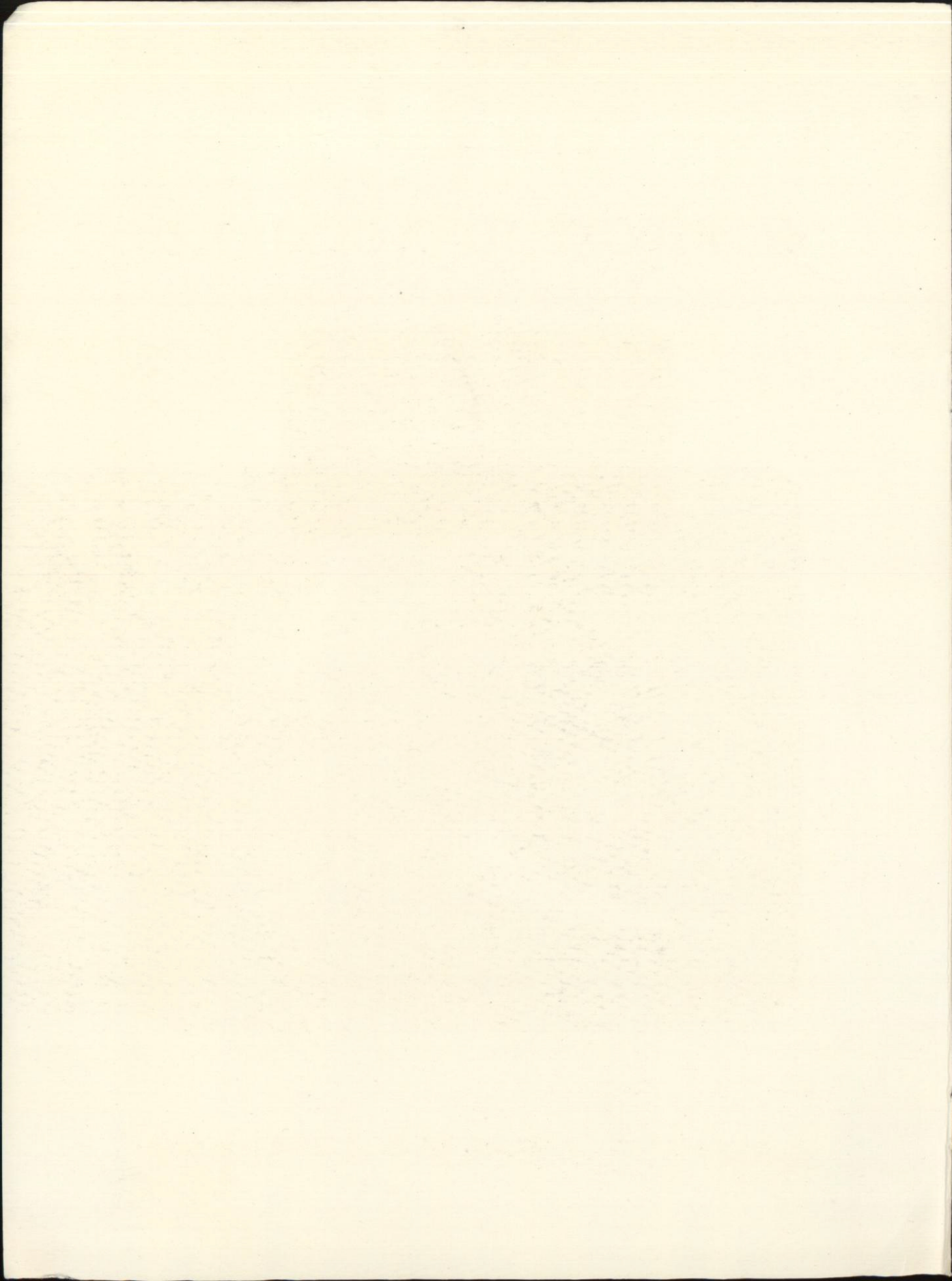
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● REPORT TO STOCKHOLDERS

YEAR ENDED DECEMBER 31, 1947



BOEING AIRPLANE COMPANY





BOEING AIRPLANE COMPANY



ANNUAL REPORT

To the Stockholders of Boeing Airplane Company:

The Annual Report for the year 1947 covering the operations of Boeing Airplane Company and its subsidiary companies is submitted herewith.

PRODUCTION DURING 1947

The past year was notable for the completion, to flight test stage, of five new model aircraft: the twin-deck Stratocruiser for commercial airlines; the B-50 Superfortress, YC-97 Stratofreighter and XB-47 Stratojet for the United States Air Force; and the XL-15 for the Army Field Forces. Never before in the history of the company have so many new models been brought forward in one year. This situation arose from the fact that at the end of the war your company was engaged, almost exclusively, in manufacturing one model—the B-29. With the end of hostilities and the resultant cancellation of war contracts, it was necessary for your company to design and develop new models of aircraft. As a consequence, during 1947 the number of aircraft of new design brought forward was greater than under normal operations when several experimental models are usually under development concurrently with production contracts.

Consistent with its practice of endeavoring to incorporate new developments into its aircraft, many new features based upon Boeing research and upon developments during the war years have been embodied in the new models. The company is proud of the results achieved. It is

believed that the company has brought forward sound aircraft with unusual qualities and for which, in each instance, there is a definite need. However, it must be recognized that the process of bringing the complicated aircraft of today to the point where it is ready for service is an expensive and time-consuming experience. The many new features must be tested and made to work properly; the many problems presented by purchased or customer-furnished equipment must be solved; and the requirements of the customer must be met. In addition, all commercial aircraft must meet the requirements necessary to obtain certification by governmental authority. Various of these requirements have been changed in recent months, causing costly alterations in our Stratocruisers. Other delays were encountered as a result of continuing shortages of purchased equipment and materials.

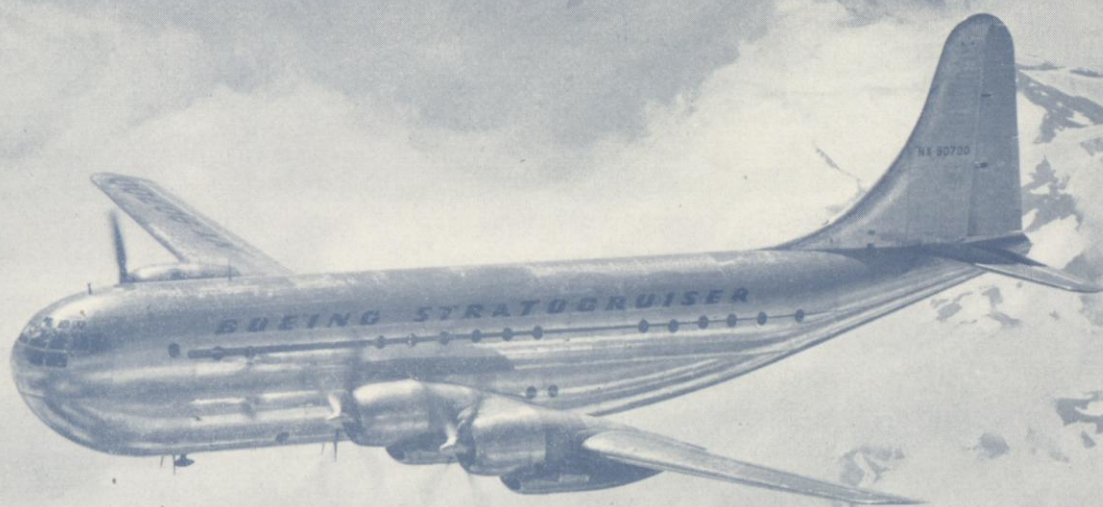
Some of the foregoing problems are not peculiar to your company—they are inherent in the aircraft manufacturing industry. However, because of the unusual number of new models brought forward during 1947, and the low volume of delivered articles, it seemed advisable to make reference to the time required and the problems involved in bringing a new model to the point of serviceability.

Substantial deliveries of B-50's are now in progress and will continue throughout the year. It is also expected that a substantial number of Stratocruisers will be delivered in 1948, as well as the experimental XB-47's, the remainder of the YC-97's, and the XL and YL-15's.

PRINCIPAL PROJECTS

C-97 Stratofreighter

In March, 1947, the first of an order for ten Model YC-97 Army cargo and troop transport airplanes made its initial test flight. This airplane, which is a military cargo version of the Stratocruiser, offers the greatest operating economy and the highest performance of any available transport. Six of these airplanes were delivered in 1947. Three have been delivered since the first of the year and the last one is scheduled for delivery in the near future. Early in 1948 an order was obtained for an additional quantity of twenty-seven C-97's.



B-50 Superfortress

The first of the new B-50 bombers made its initial flight in June, 1947. This is an advanced four-engine bomber, a development of the famous B-29 design but with substantially increased performance. Three of the original order of sixty were delivered during 1947 and an additional fifteen were delivered during the first two months of 1948. The B-50 occupies an important position in our national defense program. Orders for one hundred fifty-five have been added to the original order for sixty. Eighty-two of these have been ordered since the first of 1948.

Stratocruiser

The first of the twin-deck Boeing Stratocruisers made its initial flight in July, 1947. The second Stratocruiser made its first flight in September. These two airplanes have been used by the company for an extensive flight test program. The Stratocruisers must be certificated by the Civil Aeronautics Administration prior to delivery, and they are being subjected to a multitude of new regulations and to an unusually exacting and extensive test program. It is expected that certification will be obtained in time to permit the start of deliveries this summer and that a substantial number of Stratocruisers will be delivered during the year 1948. A total of fifty-five Stratocruisers is on order for six major United States and foreign airlines. Flight tests indicate that the airplane has exceptionally good flight and performance characteristics.

Because of high performance, indicated low operating cost and unequalled passenger comfort, your management believes that there will be a further market for Stratocruisers as soon as they have demonstrated their performance capabilities in service. However, due to uncertain market conditions, the company has not manufactured Stratocruisers beyond those which it has contracted to sell, with the exception of one test airplane.

XB-47 Stratojet

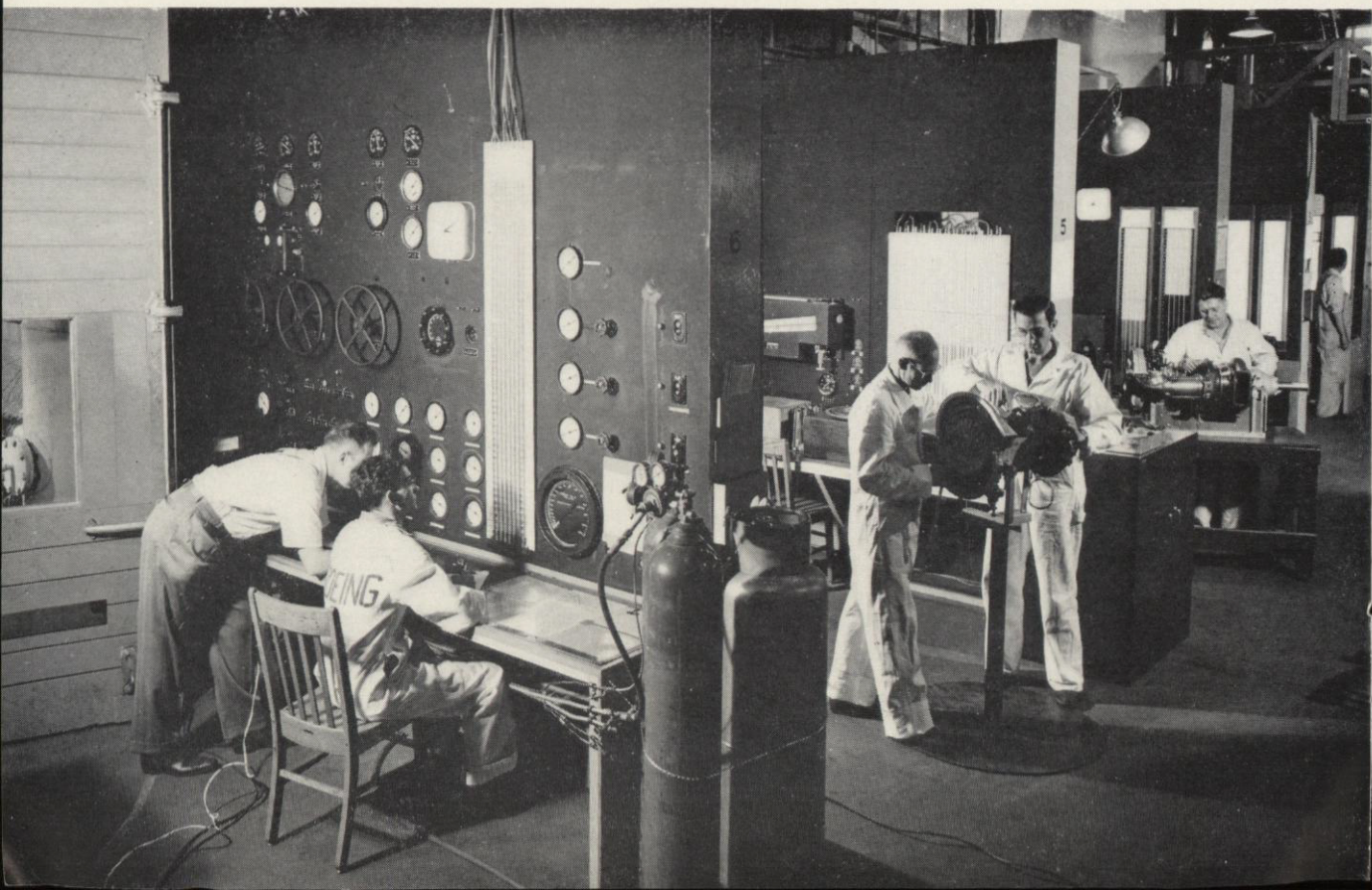
In December, 1947, the first of two experimental XB-47 jet bombers made its first test flight. This bomber, of advanced design, is powered with six jet engines and is the first to incorporate swept-back wings and tail surfaces. The company believes this model represents an outstanding new development.

EXTRAORDINARY POWER of Boeing XB-47 is shown in spectacular take-off in which eighteen auxiliary rocket units aid the plane's six jet engines.





THOROUGH WIND-TUNNEL ANALYSIS of the Boeing XB-47's aerodynamic characteristics preceded actual construction of this advanced-type bomber.



L-15 Scout

All of the models heretofore discussed were produced at the plant in Seattle, Washington, with some of the major components being supplied by the Wichita Division. During the year 1947, the Wichita Division also completed the two experimental XL-15 "Scout" Army liaison planes. This airplane, somewhat radical in design, was built to provide the versatile performance needed by the Army Field Forces for observation, gun spotting, and liaison work. It has been favorably received by the military services, and during the year 1947 a service test order was obtained for ten Model YL-15's.

RESEARCH AND DEVELOPMENT

Research and development work has become increasingly important in the aircraft business. As airplanes become larger, more complex, and must meet more exacting requirements, a greater amount of research and development work is necessary. Also many new fields must be explored, such as jet propulsion, electronics, and supersonics, and it is necessary that these be developed as rapidly as possible if our country is to maintain its air superiority.

The company has placed continued emphasis upon research and development, and its organization and facilities for carrying out this work are believed to be outstanding. In addition to the large dimension, high speed wind tunnel, the company maintains well staffed laboratories in the fields of electronics, acoustics, air conditioning, aerodynamics, plastics, electricity, structural test, propulsion, mechanical equipment, and flight test. These facilities and personnel are essential for the development of advanced airplanes, and they also permit preliminary testing prior to flight of many of the major functioning units within the aircraft.

The company has under way various experimental and developmental projects, some of which are under contract with the military services. It is also constantly engaged in improving its product currently in production. For example, it is now constructing under contract a prototype which will represent a substantial further development of the B-50 series.

Work is progressing, under contract with the U. S. Air Force, on the Boeing "GAPA" project, involving the development of supersonic ground-to-air pilotless aircraft designed to seek out and destroy approaching enemy aircraft. Work is also going forward on flight and combustion tests of high speed ram-jet engines.

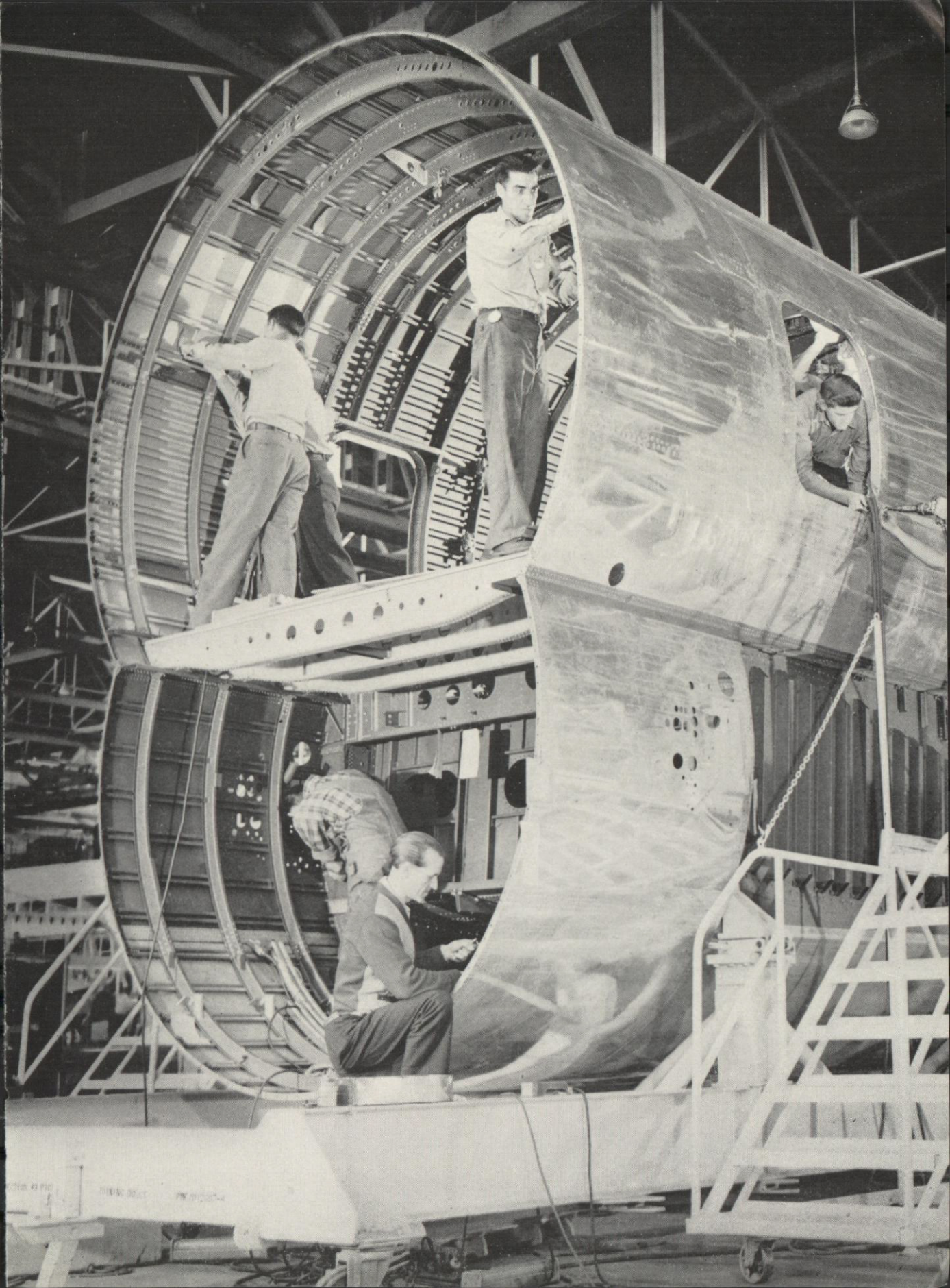
During the year 1947, the company obtained three government contracts covering various phases of experimental and developmental work on its small auxiliary gas turbine engine. It is believed that such power plants will have a useful place in future aircraft and in addition may be useful in other fields.

CONVERSION TO PEACETIME CONDITIONS

During the year 1947, management continued its efforts to establish its operations on a sound peacetime basis by readjustments in organization, procedures and facilities. Continued emphasis was given to a reduction in the cost of operations and substantial progress was made. Further changes were also made in organization and operating procedures in order to produce airplanes as economically as possible.

The company completed negotiations with the government for the purchase of government-owned machinery and equipment in the plant at Seattle, Washington, at a cost of approximately \$1,640,000. Negotiations are continuing for the purchase or lease of government-owned buildings and other machinery and equipment at the Seattle plant. The government has proposed a sales price of approximately \$1,000,000 for these facilities. The company also purchased additional machinery and equipment and made building installations during 1947 at a total cost of approximately \$800,000. These latter acquisitions were made necessary by new requirements or represented replacements due to ordinary wear and obsolescence. If Boeing acquires the additional government-owned buildings, machinery and equipment previously referred to, it will own at Seattle an aircraft manufacturing facility containing approximately 2,700,000 square feet of floor area.

Early in 1948, the company purchased machinery and equipment from the government for the Wichita plant at a total cost of approximately \$58,000. The plant now operated at Wichita is company-owned and has a total area of approximately 305,000 square feet.





PRINCIPAL U. S. STRATEGIC AIR FORCE bomber is the Boeing B-50 Superfortress, above, successor to war-famed Boeing B-29. B-50'S TRANSPORT MATE is the Boeing C-97 Stratofreighter, below.





ARMY FIELD FORCES' "eyes" are supplied in the Boeing L-15 Scout liaison plane, above. BOEING STRATOCRUISER (center) sets a new standard for the airlines of the world. MOST ADVANCED USAF jet bomber is the experimental Boeing XB-47 Stratojet, below.



During the year 1947, your company adopted the policy of subcontracting to other companies within the industry various parts and assemblies for which it did not have capacity within its own plants. It is believed that it is sound peacetime policy to subcontract peak work loads, and the company expects that this practice will be further extended in 1948.

In the annual report for 1946, it was pointed out that in Seattle the company had a contract with the International Association of Machinists extending to March 16, 1947, and "thereafter until a new agreement has been reached by the parties either through negotiation or arbitration." It was further stated that negotiations in which both parties were requesting various changes in the contract had been under way for some time and that it would probably be necessary to submit certain disputed points to arbitration. Subsequent to the issuance of last year's annual report the union determined to continue under the existing contract. Negotiations were resumed early in 1948, and the company has submitted a proposal to the union providing for wage increases and various changes in the contract which would eliminate certain wasteful practices and permit a more efficient operation. If a new agreement cannot be reached by negotiation it may still be necessary to submit the matter to arbitration.

The Wichita Division recently negotiated a new agreement with the International Association of Machinists which continues to November 5, 1948.

At the Special Meeting of Stockholders held in conjunction with the Annual Meeting in 1947, the stockholders approved the Incentive Compensation Plan for officers and employees as recommended by the Board of Directors. At a Special Meeting of Stockholders in September, 1947, amendments to the plan were adopted. No payments were made under the plan for the year 1947, as there was no profit subject to the plan.

In order to simplify the corporate structure and to facilitate an interchange of work between the Seattle and the Wichita plants, Boeing Aircraft Company was merged into Boeing Airplane Company as of December 31, 1947. Prior to that time Boeing Aircraft Company, a wholly-owned subsidiary of Boeing Airplane Company, operated the

plant at Seattle, Washington, and the Wichita, Kansas, plant was operated as the Wichita Division of Boeing Airplane Company. Effective January 1, 1948, all operations are being conducted by one corporation, namely, Boeing Airplane Company, which is incorporated under the laws of Delaware. Boeing Aircraft of Canada Limited, a Canadian corporation, continued as a wholly-owned subsidiary. This company was inactive during 1947.

FINANCIAL

Result of 1947 Operations

Due to the delays in deliveries previously referred to, sales for the year totaled only \$21,701,852. Profits on deliveries were not sufficient to offset the other expenses of the company which were currently charged off and as a consequence a net loss of \$448,499 was incurred.

Renegotiation

Further discussions were held during the year with representatives of the Air Force Price Adjustment Board regarding the level of profits to be allowed the company for the year 1945. The company understands that the matter has now been assigned to the Army Price Adjustment Board for determination. No discussions have been held with this board, but it is believed that any area of disagreement which may arise will not be large after consideration is given to the effect of federal income and excess profits taxes on such amount. As indicated last year, the company expects to charge any amount that it is required to pay by reason of renegotiation to the reserve provided for contract adjustments and indeterminate expenses.

Reserves

Transfer of \$6,145,953 of the reserve for contract adjustments and indeterminate expenses resulting from wartime conditions was made during the year to earned surplus account, leaving a balance in the reserve of \$2,000,000, which, in the opinion of the company, will be more than adequate to take care of any renegotiation settlement after taxes.

Current Position

Investment in work-in-process inventories was not made at the anticipated rapid rate during the year 1947, and it therefore was not necessary to make bank borrowings during the year. However, subsequent to January 1, 1948, the company has borrowed \$5,500,000 from its banks of account, which amount was used for general corporate purposes. Inventories of work-in-process and materials in the approximate amount of \$97,100,000 are valued at cost or market, whichever is lower, against which advances and/or progress payments totaling \$65,600,000 had been received. It is anticipated that the investment in the inventories will remain at a high level until deliveries begin under the Stratocruiser contracts. This will require additional borrowings, but such indebtedness should be substantially reduced by the end of 1948.

Termination Settlements

The last of the final settlement agreements under the Contract Settlement Act with respect to the company's wartime contracts was entered into during the year.

Boeing Aircraft of Canada Limited

It will be noted that the profit and loss statement reflects a dividend received from Boeing Aircraft of Canada in the amount of \$650,253. This is the dividend which was referred to in the 1946 report as forthcoming during 1947. The subsidiary has most of its assets invested in Canadian bonds and in the refundable portion of excess profits taxes, which amount is payable in 1949 and 1950.

Backlog

Unfilled orders on the company's books as of December 31, 1947, totalled approximately \$230,540,000, of which \$80,260,000 were commercial and \$150,280,000 military. These figures do not include the twenty-seven C-97's nor the eighty-two B-50's previously referred to, contracts for which were in negotiation at the year's end.

Employment

At the end of 1947, the company's employment at Seattle and Wichita totaled approximately 18,700.

NATIONAL AIR POLICY

There is a growing realization on the part of the American public and government leaders that from the standpoint of national defense alone it is essential that this country have an industry capable of producing military requirements. There must be not merely an industrial mobilization plan to be put into effect on some future signal, but a continuing program of development, perfection and proving of new experimental models, and continuing production of the required quantity of the latest accepted and operating types of aircraft.

The industry should be encouraged by two steps taken in 1947 to establish a sound air policy for our nation—the appointment by the President of an Air Policy Commission and the establishment by Congress of an Air Policy Board. These organizations were created for the purpose of reporting to the President and the Congress, respectively, with recommendations which would be broad in scope and purpose and which could be used as a guide for formulating a national air policy.

The reports rendered were comprehensive in their disclosure of facts and in their recommendations. Each emphasized the need for an actual Air Force in being, a strong aircraft manufacturing industry, and increased emphasis on research and development. It is hoped that from these reports will come congressional action establishing a program which will permit the industry to plan intelligently and to build for the future.

It is the opinion of the management of your company that the maintenance of free competition within the aircraft manufacturing industry is essential to our national security. The superior qualities of American aircraft are due, in large measure, to the keen competition that exists within the industry. A policy which would permit the procurement of inferior products in order to keep aircraft manufacturing companies alive is fundamentally unsound. Such a policy would destroy incentive and there would follow a deterioration in the quality of the industry's product. If our nation is to have a sound and vital aircraft manufacturing industry, the procurement of aircraft must be based upon merit.

By Order of the Board of Directors

WILLIAM M. ALLEN
President

March 29, 1948

BALANCE

BOEING AIRPLANE COMPANY

ASSETS

CURRENT ASSETS:

Cash		\$11,061,303
United States Certificate of Indebtedness, at cost		1,008,750
Accounts receivable (including \$411,888 due from the United States)		834,343
Estimated balance accrued with respect to deliveries under partially completed contracts with the United States, less progress payments allocated thereto, \$7,566,738		2,676,374
Estimated recoverable expenditures and fees under cost-plus-a-fixed-fee contracts with the United States		1,528,515
Advances to suppliers		920,973
Inventories, at the lower of average cost or market — Contracts in progress as to which title has passed to the United States, less progress payments allocated thereto, \$40,830,833	\$11,646,568	
Commercial and other contracts in progress	40,322,592	
Purchased materials and parts	4,317,414	56,286,574
Prepaid expenses		218,102
TOTAL CURRENT ASSETS		\$74,534,934

INVESTMENTS AND OTHER ASSETS:

Investment in capital stock of Boeing Aircraft of Canada Limited, a wholly-owned subsidiary, at cost	\$ 611,297	
Deposits with mutual insurance companies, etc.	284,834	896,131

PROPERTY, PLANT AND EQUIPMENT — at cost, less reserves for depreciation and amortization:

Land (\$263,734) and buildings	\$10,691,579	
Machinery, tools and equipment	7,677,412	
	\$18,368,991	
Less—Reserves for depreciation and amortization	13,836,597	4,532,394
		\$79,963,459

SEE NOTES TO

SHEET

• DECEMBER 31, 1947

LIABILITIES, CAPITAL STOCK AND SURPLUS

CURRENT LIABILITIES:

Accounts payable	\$ 5,497,204
Accrued wages, taxes, etc.	4,116,586
Reserve for federal and state taxes on income (Note A)	777,611
Advances on commercial contracts	24,760,091
TOTAL CURRENT LIABILITIES	<u>\$35,151,492</u>

RESERVE for contract adjustments and indeterminate
expenses resulting from war-time conditions (Note B)

2,000,000

CAPITAL STOCK AND SURPLUS:

Capital stock, par value \$5 a share —	
Authorized — 1,250,000 shares	
Issued and outstanding — 1,082,454 shares	\$ 5,412,270
Paid-in surplus (unchanged during the year)	8,142,064
Earned surplus	<u>29,257,633</u>
	42,811,967

\$79,963,459

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED PROFIT AND LOSS STATEMENT

Year Ended December 31, 1947

Sales, including the estimated sales price of deliveries under partially completed contracts and costs and fees considered reimbursable under cost-plus-a-fixed-fee contracts.....		\$21,701,852
Dividends received from Canadian subsidiary (Note C).....		650,253
Interest and other income, net.....		281,843
		<u>\$22,633,948</u>
Cost of sales.....	\$20,122,809	
General and administrative expenses.....	1,499,375	
Sales and service expenses.....	968,388	
Research expenses.....	654,787	
Net adjustments with respect to costs of experimental projects.....	162,912*	23,082,447
Net Loss.....		<u>\$ 448,499</u>

(*) Asterisk indicates red figure.

Depreciation in the amount of \$503,403 is included in the above costs and expenses.

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENT OF CONSOLIDATED EARNED SURPLUS

Year Ended December 31, 1947

Balance at January 1, 1947.....		\$24,642,633
Addition —		
Transfer of portion of the reserve for contract adjustments and indeterminate expenses resulting from war-time conditions (Note B)....		6,145,953
		<u>\$30,788,586</u>
Deductions —		
Net loss for the year ended December 31, 1947 \$	448,499	
Cash dividend paid, \$1 per share.....	1,082,454	1,530,953
Balance at December 31, 1947.....		<u>\$29,257,633</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

December 31, 1947

Note A — Federal and state taxes on income:

The provisions for federal and state taxes on income in prior years are considered to be substantially correct in the aggregate and the reserve for such taxes of \$777,611 at December 31, 1947, is believed adequate to cover adjustments known to be under consideration by the Treasury Department. The company is of the opinion that, for the year 1947, it has neither a tax liability nor does it have a refund due under the "carry-back" provisions of the Internal Revenue Code.

Note B — Reserve for contract adjustments and indeterminate expenses:

The reserve for contract adjustments and indeterminate expenses resulting from war-time conditions has been reduced by transfer to earned surplus of an amount of \$6,145,953 which is considered to be no longer necessary. Proceedings with respect to the renegotiation of profits for the year 1945 have not been completed and the amount required therefor is indeterminate at this time but it is believed that the balance remaining in this reserve is adequate to cover the liability which will be determined under the Renegotiation Act.

Note C — Dividends from Canadian subsidiary:

The consolidated profit and loss statement includes dividends in the amount of \$650,253 received from the wholly-owned Canadian subsidiary, which dividends were paid from accumulated earnings of prior years. The subsidiary had a loss for the year 1947 of \$9,420 (Canadian funds).

ACCOUNTANTS' REPORT

Board of Directors,
BOEING AIRPLANE COMPANY:

We have examined the balance sheet of Boeing Airplane Company as of December 31, 1947, and the statements of profit and loss and surplus of the company and its consolidated subsidiary for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate, except that it was not practicable to obtain satisfactory confirmations of receivables from United States Government departments and agencies, with respect to which we satisfied ourselves by means of other auditing procedures. In other respects our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Boeing Airplane Company at December 31, 1947, and the results of operations of the company and its consolidated subsidiary for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, NIVEN, BAILEY & SMART,
Certified Public Accountants.

Seattle, Washington,
March 9, 1948.

BOEING AIRCRAFT OF CANADA LIMITED

CONDENSED BALANCE SHEET as at DECEMBER 31st, 1947

(In Canadian Dollars)

ASSETS

CURRENT ASSETS

Cash in Bank and on Hand.....	\$ 83,652.91
Refundable Income Taxes.....	1,585.27
Dominion of Canada 1¾% Bonds, due November 1st, 1950, and Accrued Interest (Market Value \$252,500.00).....	250,731.16
TOTAL CURRENT ASSETS.....	\$335,969.34

FIXED ASSETS, at Cost, Less Reserve for Depreciation

177.85

DEFERRED RECEIVABLE

Refundable Portion of prior years' Excess Profits Taxes	347,503.91
	<u>\$683,651.10</u>

LIABILITIES

SHARE CAPITAL

Preferred Stock—6% Cumulative Redeemable	\$683,000.00
Common Stock—No par value	10,046.20
	<u>\$693,046.20</u>
DEFICIT	9,395.10
	<u>\$683,651.10</u>
	<u><u>\$683,651.10</u></u>

Note: Dividends on the 6% Cumulative Redeemable Preferred Stock are in arrears in the amount of \$34,150.00.

ACCOUNTANTS' REPORT

To the Shareholders,

BOEING AIRCRAFT OF CANADA LIMITED:

We report to the Shareholders that we have made an examination of the accounts of Boeing Aircraft of Canada Limited for the year ended December 31st, 1947, and have obtained all the information and explanations we have required.

We have examined the Condensed Balance Sheet of the company as at December 31st, 1947, have reviewed the system of internal control and the accounting procedures of the company and have examined the accounting records of the company and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying Condensed Balance Sheet presents fairly the position of Boeing Aircraft of Canada Limited as at December 31st, 1947, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON,
Chartered Accountants.

Vancouver, B. C.,
March 10th, 1948.

BOARD OF DIRECTORS

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WELLWOOD E. BEALL

Vice President

Engineering and Sales

D. A. FORWARD

Senior Vice President, The National
City Bank of New York

HAROLD E. BOWMAN

Secretary and Treasurer

FRED P. LAUDAN

Vice President

Manufacturing

DARRAH CORBET

President, Smith Cannery
Machines Co.

Seattle, Washington

J. E. SCHAEFER

Vice President

General Manager, Wichita Division

C. L. EGTVEDT

Chairman

DIETRICH SCHMITZ

President, Washington Mutual
Savings Bank

Seattle, Washington

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C. L. EGTVEDT..... *Chairman*

WELLWOOD E. BEALL..... *Vice President—Engineering and Sales*

FRED P. LAUDAN..... *Vice President—Manufacturing*

J. E. SCHAEFER..... *Vice President—General Manager, Wichita Division*

E. C. WELLS..... *Vice President—Chief Engineer*

J. P. MURRAY..... *Vice President—Eastern Representative*

F. B. COLLINS..... *Vice President—Sales Manager*

H. F. BROWN..... *Vice President*

HAROLD E. BOWMAN..... *Secretary and Treasurer*

General Counsel

HOLMAN & SPRAGUE

General Auditors

TOUCHE, NIVEN, BAILEY & SMART

Transfer Agent

CITY BANK FARMERS TRUST COMPANY, NEW YORK

Registrar

THE NATIONAL CITY BANK OF NEW YORK, NEW YORK

